

**OCD'S EXPECTATIONS FOR
REPLACEMENT HOUSING PROJECTS WITH COUNTY ALLOCATION FUNDS**

The MSHDA Office of Community Development (OCD) provides County Allocation grants to non-entitlement county governments throughout the State. Most often these funds are used to run county-wide owner-occupied rehabilitation programs. In the course of administering such programs, OCD grantees often encounter applicants whose homes cannot be reasonably or feasibly rehabilitated. In such cases, demolition and replacement of the existing unit can be undertaken subject to standard funding limitations.

Counties may use their allocation funds to replace units as a part of their owner-occupied rehabilitation programs. This memo is intended to provide some guidance to County Allocation recipients when considering these replacement housing projects.

- **The Office of Community Development (OCD) expects replacement to be undertaken only as an activity incidental to local owner-occupied rehabilitation programs.**
- **OCD encourages grantees to evaluate any applicant in need of a replacement unit for eligibility for the Single Family Replacement Housing Program (RHP),**
- **Replacement housing should not be used as a strategy to address the housing needs of a county, community or target area.**
- **The regular per-unit cost limits of homeowner rehab also apply to replacement.**

These considerations are explained in more detail below:

1. **Housing replacement with county allocation funds can be undertaken only as an activity incidental to local owner-occupied rehabilitation programs.** Only after determining that rehabilitation is neither reasonable nor feasible should replacement be considered.
2. **OCD encourages grantees to evaluate any applicant in need of a replacement unit for eligibility for the Single Family Replacement Housing Program (RHP).**

In 2001 the MSHDA Single Family Mortgage Office developed a Replacement Housing Program (RHP) to provide nonprofit organizations and local governments with access to very low-interest financing to undertake replacement housing projects. (For more information about RHP, contact the MSHDA Single Family Mortgage Division at 517-373-8017). County governments are urged to use RHP as their primary resource for replacement housing projects, so that replacement projects do not drain their scarce county allocation resources. RHP projects assist the recipient in meeting its 25% leverage requirement, and RHP construction standards assure that units will be a long-term asset to the area's housing stock and will grow in value for their new owners.

However, OCD recognizes that some households who can't be served through RHP face health and safety hazards that the county may need to address, and OCD does not require that applicants apply to and be denied by the Single Family program prior to receiving county allocation assistance. When the county elects to use allocation funds for replacement, the county must assist the applicant in obtaining a high-quality replacement unit at a reasonable price. New site-built or modular homes must meet the Michigan Building Code. In limited circumstances, CD will allow single-wide manufactured units, but these projects and all other manufactured units that do not meet or exceed the Single Family standards must be approved by your CD Specialist prior to committing funding.

3. **Replacement housing should not be used as a strategy to address the housing needs of a county, community or target area.** Replacement housing is by its very nature *non-strategic*; given its high cost per unit, it should be considered a "last resort." Grantees seeking to revitalize target areas should work with local officials to prioritize local needs and develop more versatile strategy.
4. **The regular per-unit cost limits of homeowner rehab also apply to replacement.** As with homeowner rehab, OCD has limited funds allowed per unit to \$25,000. Prior to requesting an exception to exceed \$25,000 on a specific unit, grantees are expected to explore other alternatives (such as down payment assistance for relocation) to determine if they may be more cost-effective.

The Office of Community Development recognizes that these are complex issues involving a wide range of considerations, both from the perspective of local program administrators and OCD, as a statewide public investor in these projects. These expectations are intended to help County Allocation grantees implement replacement housing projects maximizing benefits to the community and using scarce grant funds cost-effectively.